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DIRECTORATE OF  
INTELLIGENCE

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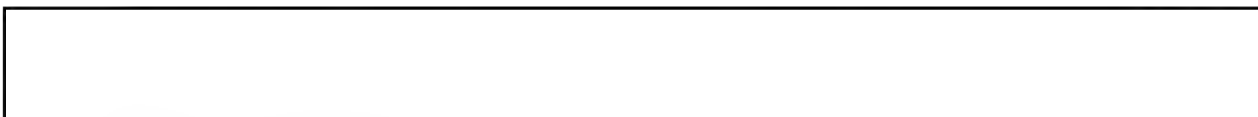
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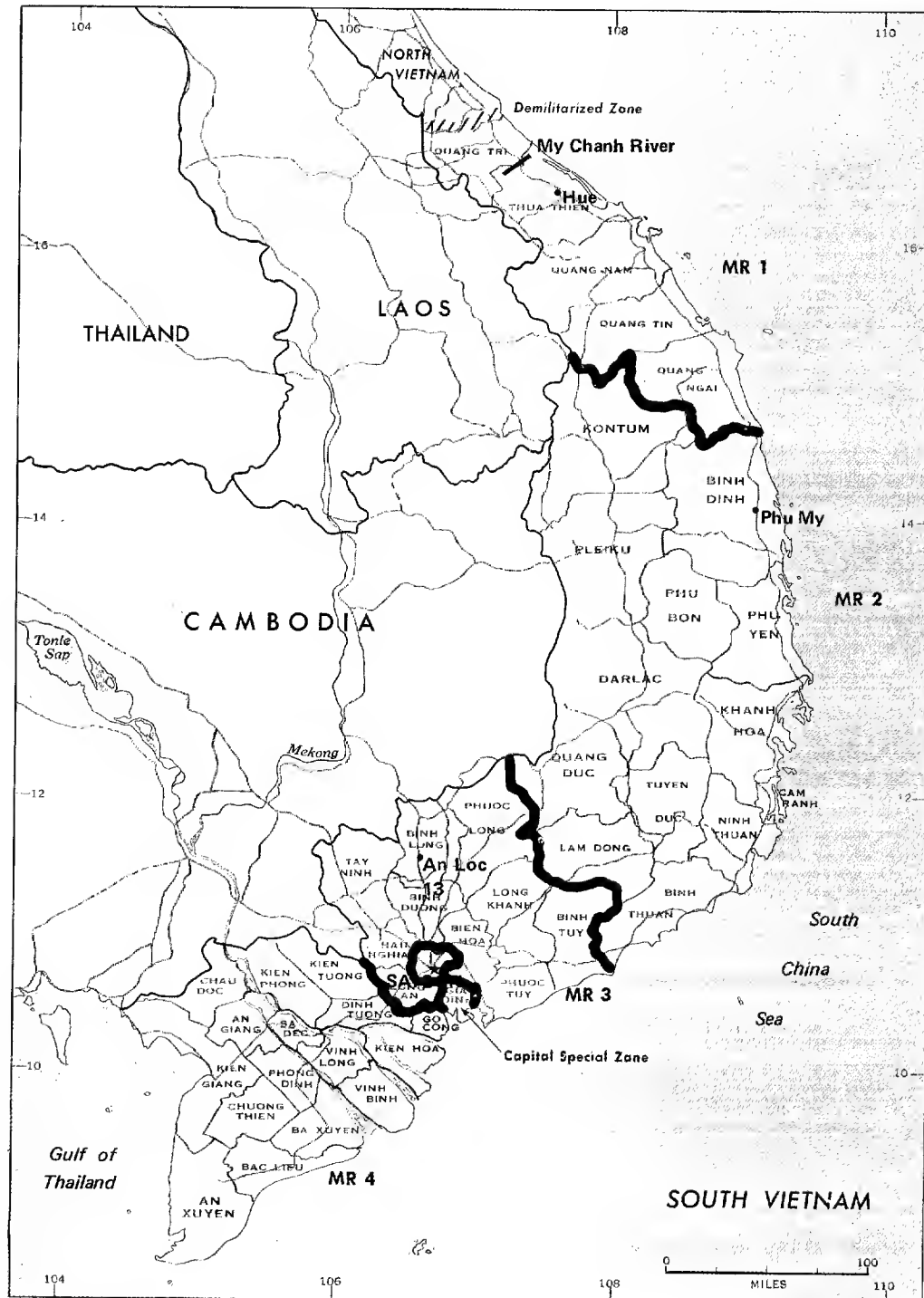
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The South Vietnamese Marine operation into northern Quang Tri Province has been terminated, and all units have been withdrawn to government defense lines along the My Chanh River. The withdrawing marines were attacked by enemy troops and tanks, but the attackers were driven off and reportedly suffered fairly heavy losses. Nearby, Communist gunners have stepped up artillery attacks against government strongpoints northwest of Hue.

Farther south, enemy units in Binh Dinh Province have increased pressure against South Vietnamese troops in Phu My District. At least one government position south of the district capital has been abandoned, and there are indications that elements of a North Vietnamese division are moving closer to other government positions along the coast.

In the delta, heavy fighting continues in western Kien Tuong Province and along the Cambodian

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border. In the lower delta action also reportedly picked up in Chuong Thien, Bac Lieu, and An Xuyen provinces. Fighting elsewhere in the country was light, although in Military Region 3 Communist units continue to keep government reinforcements from moving up Route 13 to relieve the South Vietnamese garrison at An Loc.

\* \* \* \*

Three Soviet surface ships that have been in the Macclesfield Bank area since mid-May are apparently en route home to Vladivostok. The ships--a cruiser and two destroyers--are on a northeasterly course; if they maintain their present speed they will probably leave the South China Sea late on 21 June. One E-class submarine is believed to be still in the South China Sea, and two other E-class units remain east of Taiwan.

The departure of the small flotilla follows by three days Soviet President Podgorny's visit to Hanoi. The North Vietnamese are likely to interpret this as a further sign that Moscow's support is waning.

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ISRAEL - ARAB STATES: During the Israeli strikes into southern Lebanon yesterday, five Syrian Army officers and a Lebanese Army intelligence officer were captured.

According to a senior Lebanese Army official, the Arab officers were touring the Israeli-Lebanese border area when they were seized. In other areas of southern Lebanon, the Israelis stopped and searched civilian automobiles. The Lebanese military believes that Israeli intelligence was aware of the presence of the Syrian officers in Lebanon, and that this accounts for the Israeli roadblocks. In the Arqub region Israeli aircraft hit targets in the vicinity of Lebanese Army barracks. The Lebanese Army also reported Israeli shelling near other villages in the Arqub. Seven Lebanese soldiers and policemen reportedly were killed. According to preliminary civilian casualty figures, 12 were killed and 20 wounded. The Lebanese Foreign Ministry has indicated to the US Embassy that Lebanon will call for a UN Security Council meeting to discuss the Israeli attack.

The Israeli action followed two incidents on Monday in the occupied Golan Heights: a fedayeen rocket attack on an Israeli tourist bus and the wounding of two Israeli soldiers in a mine explosion.

Although the Israelis still hold the Lebanese Government responsible for the massacre by fedayeen-sponsored Japanese terrorists at Lod airport on 30 May, the potentially serious consequences of any military reprisal commensurate in magnitude to the massacre may have helped limit Israeli response so far to pressure for improved air safety procedures.

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UK: London's labor policy will undergo a severe test in the coming weeks.

The latest government intervention in the dock dispute only dealt with an immediate problem. It did nothing to ameliorate worsening government-labor relations. The government prevented the imprisonment of three shop stewards who had been charged with contempt of the National Industrial Relations Courts (NIRC), and this action ended the wildcat strike of dock workers who were protesting the impending sentences.

It did not address, however, the basic problem in the dock dispute--whether warehousemen or dockers should fill and empty containers. The dockers fear that this move toward modernization will threaten their jobs. The case of the three shop stewards cited for contempt, meanwhile, is still before the NIRC.

The NIRC has made little headway in the morass of British labor problems. A recent NIRC ruling that unions were responsible for actions of the shop stewards was reversed by an appeals court. This case now is scheduled to be considered by the House of Lords in mid-July. If that body also rules in favor of the unions, the Heath government will be faced with almost insurmountable problems in dealing with the lack of union discipline and blatant independence of shop stewards.

The Tory government had placed great hopes on the Industrial Relations Act for reforming labor-management relations. If subsequent court decisions overrule the NIRC, the government may be forced to modify the Act or to supplement it with other measures such as mediation or conciliation.

The dockers, however, rejoicing in their recent victory, are not likely to be willing to accept a compromise. Although an official strike has

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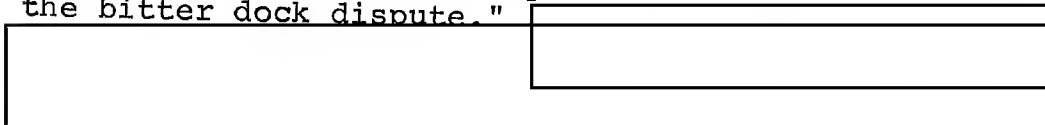
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been postponed for six weeks, while the national leaders and port employers discuss the issues, the rank and file did not totally support the postponement. The government recently announced that a select committee on nationalized industries will soon reveal a report that includes a "possible formula to solve the bitter dock dispute."



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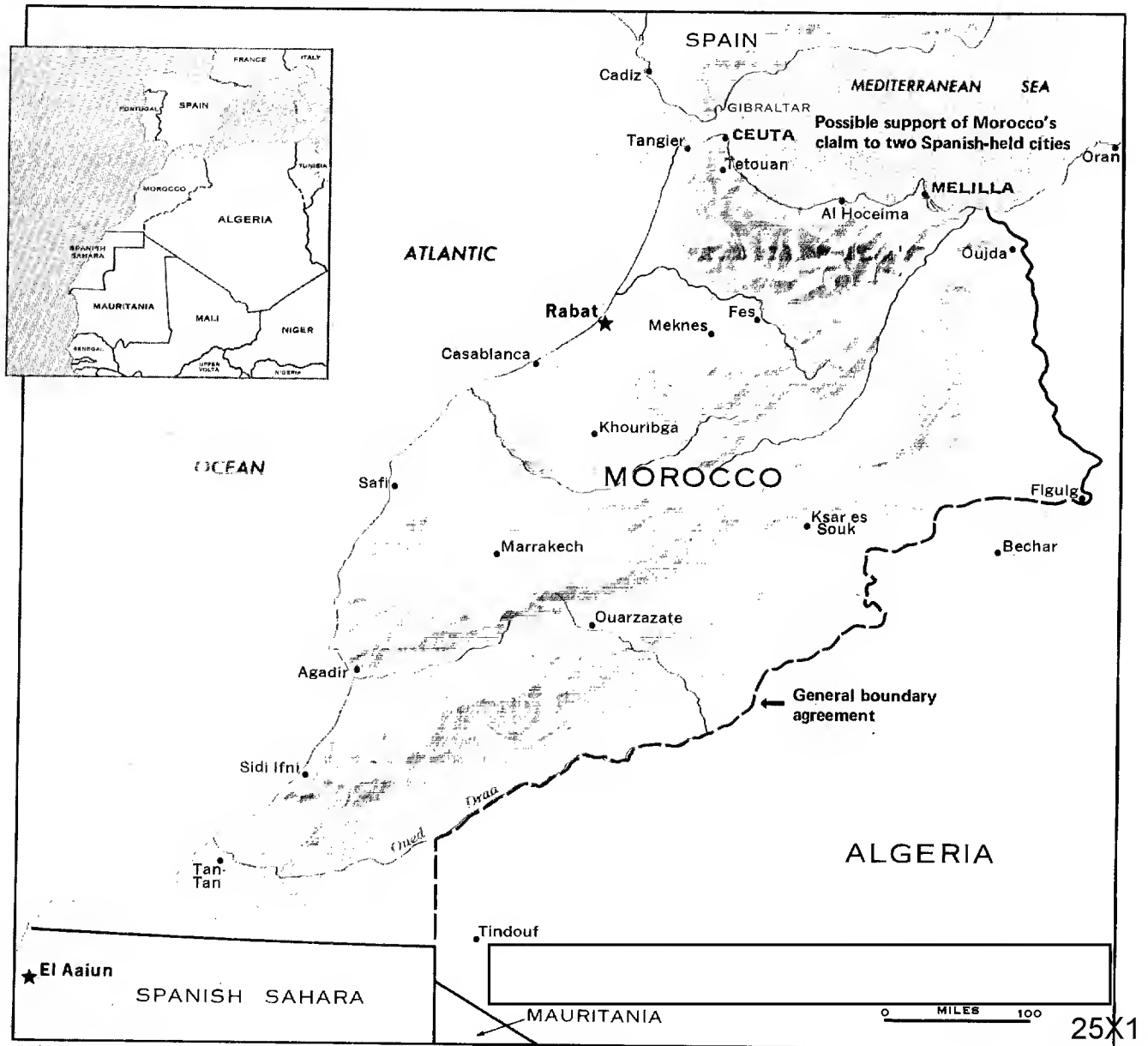
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## Recent Agreements Reported Between MOROCCO and ALGERIA



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MOROCCO-ALGERIA: Border and economic cooperation agreements signed last week may presage an era of improved relations.

Two years ago King Hassan abandoned Morocco's territorial claims to much of the Sahara, including the mineral-rich Tindouf region of Algeria. Negotiations to delineate a precise border broke down earlier this year when the Algerians allegedly refused to make some minor adjustments to accommodate the Moroccans. In order to obtain Algerian backing during the African Summit, which Hassan hosted last week, he eased his terms and signed a border agreement, the details of which have not yet been published. The King sought to counter charges by his domestic opposition that he had given away the national patrimony by having the agreements signed in the presence of other African leaders, thus presenting them as a symbol of African unity.

Hassan subsequently claimed that Algerian Prime Minister Boumediene had pledged support for Morocco's claim to Spanish Sahara. Literally interpreted, however, Boumediene's statement cannot be taken as an endorsement of Morocco's claim to all of Spanish Sahara. Boumediene simply pledged support for Moroccan efforts to establish sovereignty over its territories under colonial domination, and declared that Spain must leave the Sahara. His statement could be interpreted to imply Algerian support for Moroccan claims on the Spanish-held presidios of Ceuta and Melilla, enclaves in northern Morocco.

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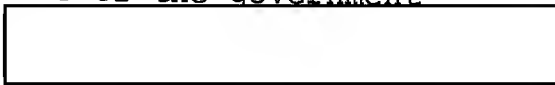
THE NETHERLANDS: The three confessional parties that form the core of the coalition Dutch Government will attempt to merge, a move that should increase the government's staying power.

Representatives of the three parties on 17 June recommended that they offer a single list of candidates in the next national elections and sit as one party in parliament. They proposed for the interim some sort of Christian Democratic movement that members of their parties and outsiders could join. These recommendations must now be approved by the individual parties.

This should stop the flirtation between the Catholic People's Party and the opposition Labor Party, the two largest of the ten major parties in parliament. Without a Catholic-Labor core, no coalition could realistically be formed in the near term as an alternative to the present government.

Labor Party leaders have reacted glumly to the confessional parties' announcement. It may cause them to look with new interest at a proposal that they and two other opposition parties form a progressive people's party, even though the prospective members believe the new party could not hope to achieve a parliamentary majority for at least ten years.

If Labor Party leaders are anxious for power anytime soon, forming a coalition with the confessional parties may yet emerge as the surer path. The confessional parties might become receptive if tensions within the present coalition continue to grow. Nevertheless, a Labor Party leader has estimated that the fusion effort, whether or not it succeeds, has ensured the life of the government for at least another year.



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NOTES

BELGIUM-ZAIRE: Brussels' agreement last week to make almost US\$16 million available to the Bank of Zaire should ease Kinshasa's critical balance-of-payments problem. Kinshasa may use these funds to make overdue payments on overseas bank loans. Failure to meet these obligations could jeopardize Zaire's economic development effort. The credit agreement is the first step in implementing the US \$25-million aid package offered by Belgium earlier this year to assist Zaire's investment program.

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AUSTRIA: Parliamentary approval of a 16-percent value-added tax to be introduced 1 January has raised fears of unwarranted price hikes when inflation already is a major problem. Real gross national product is growing at a rate of nearly five percent, one of the highest in Europe, and unemployment is low, but prices are rising at an annual rate exceeding six percent, also one of the highest in Europe. The government is seriously considering the imposition of comprehensive price controls for a 12-month period starting in September. In a further effort to moderate inflationary pressures, fueled by an inordinately high rate of credit expansion during the past year, the government and the banking community have agreed to reduce excessive bank liquidity by US\$100 million.

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